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# City Briefing

Wednesday 11 June 2008

## Agenda

- **Alistair Buchanan** – Chief Executive
  - 5-year Review & Challenges Ahead
- **Sarah Harrison** – MD, Corporate Affairs
  - Update on Enforcement Actions
  - Ofgem's role in Social & Consumer Affairs
- **Steve Smith** – MD, Networks
  - 'RPI@20': Regulatory Review
  - Electricity Distribution Price Control Review – Initial Consultation
  - Transmission Access Review
- **Andrew Wright** – MD, Markets
  - Energy Supply Markets Probe
  - 2020 Targets
  - Winter 08/09 Outlook
- **Closing comments**
- **Questions & Answers**
- **Buffet Lunch**

CHIEF EXECUTIVE

**ALISTAIR BUCHANAN**

## 5-year Review & Challenges Ahead

- General atmosphere of regulation
- Strategic direction for Ofgem
- Headline projects 07/08
- Early warnings

MANAGING DIRECTOR, CORPORATE AFFAIRS

**SARAH HARRISON**

## Enforcement

- **Ofgem enforcement guidelines – September 2007**
  - Powers under Gas and Electricity Acts, concurrent powers with OFT under Competition and Enterprise Acts
  - Criteria for investigation include: consumer harm, deterrent effect, resources
  - Aim to issue statement of case, case closure or update within 9 months of launching investigation
- **Guidelines and case progress published on Ofgem website**
- **Current cases**
  - NG metering (CA98) – Authority decision now subject to appeal (CAT)
  - SP/SSE abuse of dominance in wholesale electricity market (CA98) – investigation ongoing
  - Npower misselling (G&E Acts) – investigation ongoing

## Fuel Poverty and Social Affairs

- Fuel poverty
  - 4 million in fuel poverty (more than 10% of income spent on heating)
  - Reduction of FP in England (1996-2005): Attributed 75% to increase in incomes, 20% to energy efficiency and 5% to price reductions
- Ofgem's duties
  - Have regard to interests of disabled, sick, older people, low income and rural customers
  - Have regard to Government Social and Environmental Guidance
- Ofgem's role
  - To make market work for all consumers
  - Incentives on GDNs and DNOs (gas network extensions, electricity customer service award scheme)
- March Budget: £225m increased suppliers social assistance (2008-11)
  - Ofgem to set guidelines on qualifying measures (non-statutory)

## Consumer issues

- Consumer, Estate Agents and Redress Act 2007
  - Ofgem to set statutory complaints standards for businesses
  - Ofgem to approve statutory ombudsman scheme
  - New National Consumer Council - advocacy and vulnerable consumers
  - Consumer Direct for front-line customer complaints
- Ofgem stepping up consumer insight
  - Consumer First Programme
  - Appointment of new Consumer Panel
- New arrangements take effect from 1 October 2008



MANAGING DIRECTOR, NETWORKS

**STEVE SMITH**

## RPI @20 Review

- Major 2 year review of whether RPI-X remains fit for purpose
- Big questions
  - Can RPI-X meet challenges of future? Do we want higher risk/reward and more innovative networks to meet climate change challenges?
  - Do recent transaction values suggest we haven't got the balance right between customers/shareholders?
  - Slaying some of the RPI dragons (capex incentives, cost of capital, financeability, pensions, regulatory depreciation/repex)
- New Director appointed and begins in earnest this summer
- Reports to Ofgem Board in summer 2010
- No surprises – extensive consultation before any significant changes
- Advisory Panel to be established including members from City (+academics, companies, customer groups)

## Electricity Distribution Price Control Review: Initial consultation

- DPCR5 launched in earnest in March 2008
- Key themes for the review:
  - DNO's role/incentives in moving to low carbon economy
  - Customers: broaden/deepen existing incentives to improve customer service
  - Network investment: managing cost pressures and seeking to build on successes/learn lessons from DPCR4
- Assess carefully DNO performance under DPCR4:
  - Is outperformance correlated with better service/operational management?
  - Reward companies who bid realistically and delivered?
- More holistic assessment of the price control "package" including potential returns from additional incentive schemes
- Further update in December – Initial proposals June 2009

## Transmission Access Review

- Joint BERR/Ofgem project launched following Energy Review
- Seeks to address long, slow queue for renewable and new conventional to connect
- Existing access arrangements need radical overhaul
- Three broad models:
  - Connect and manage
  - Auction rights
  - Trade existing rights
- Industry to bring recommendations to Ofgem autumn 2008
- Implement in April 2010(?)
- Significant changes likely on incentives and role of TSOs:
  - New investment incentives to meet 2020 targets – higher cost of capital for greater risk
  - Greater financial penalties for late connection

MANAGING DIRECTOR, MARKETS

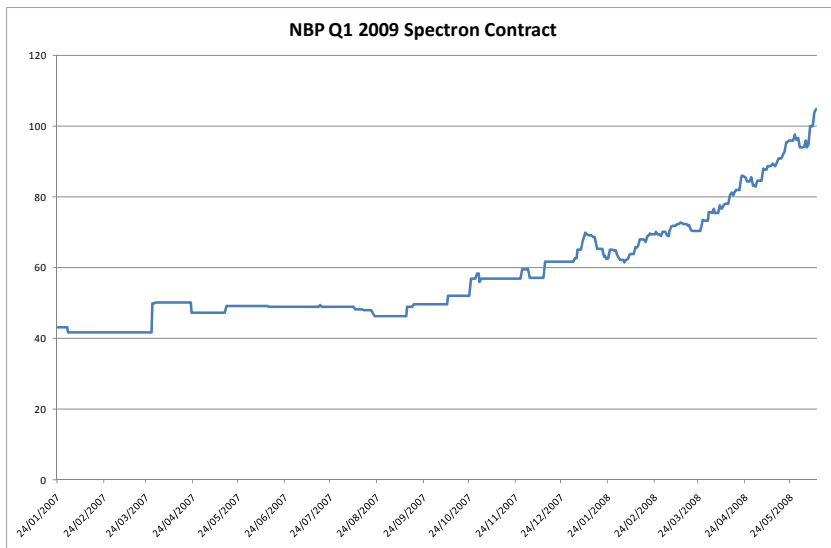
**ANDREW WRIGHT**

## Markets Division: Fighting on all fronts

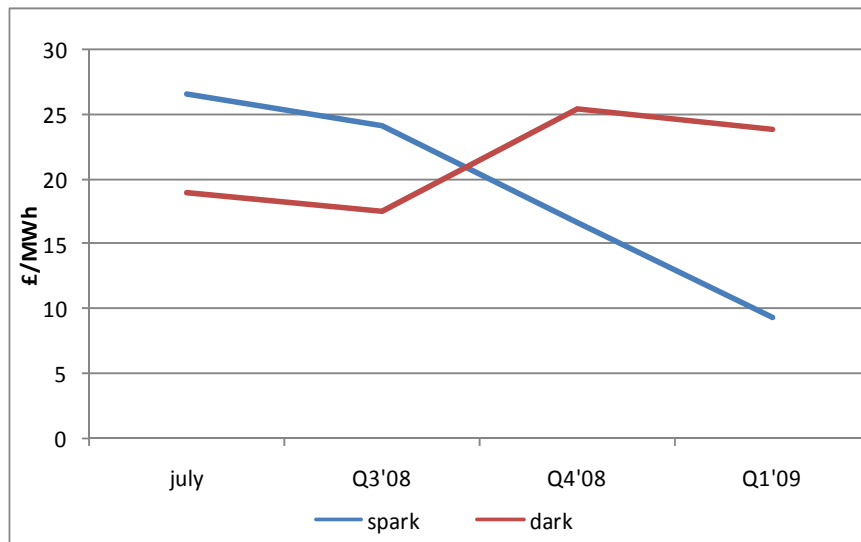
- Wholesale markets
- Retail markets
- Metering
- Renewables – 2020 strategy
- European 3rd package
- and more...

# Wholesale markets

### Year ahead gas prices



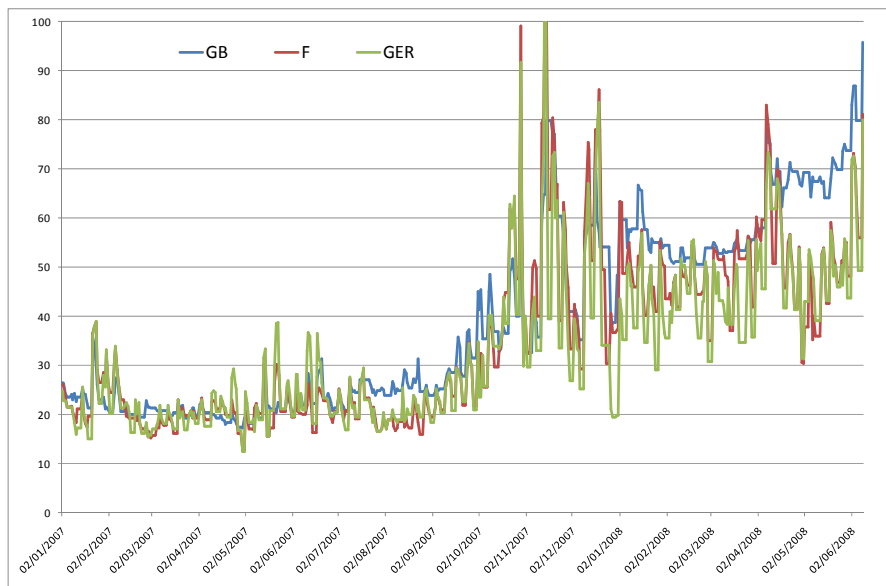
### Dark & Spark – Forward Curves



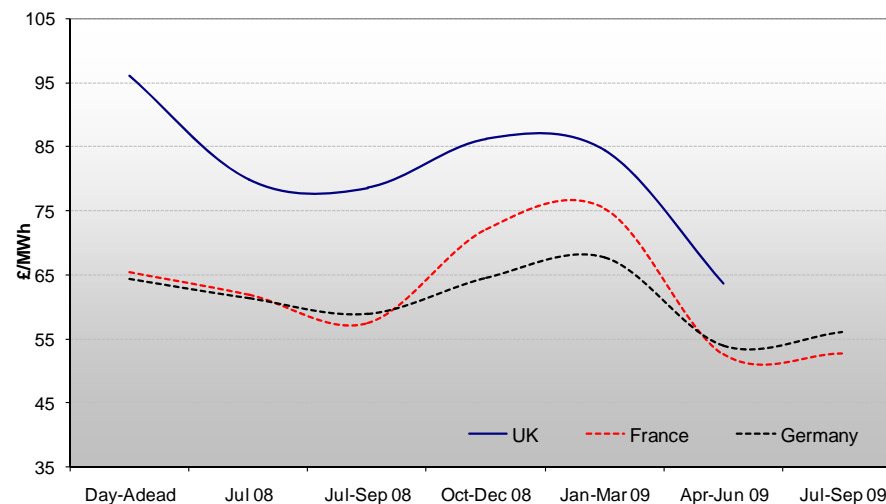
**Prices doubled & Spreads widening**

## European wholesale markets

### Historic power prices



### Power Price



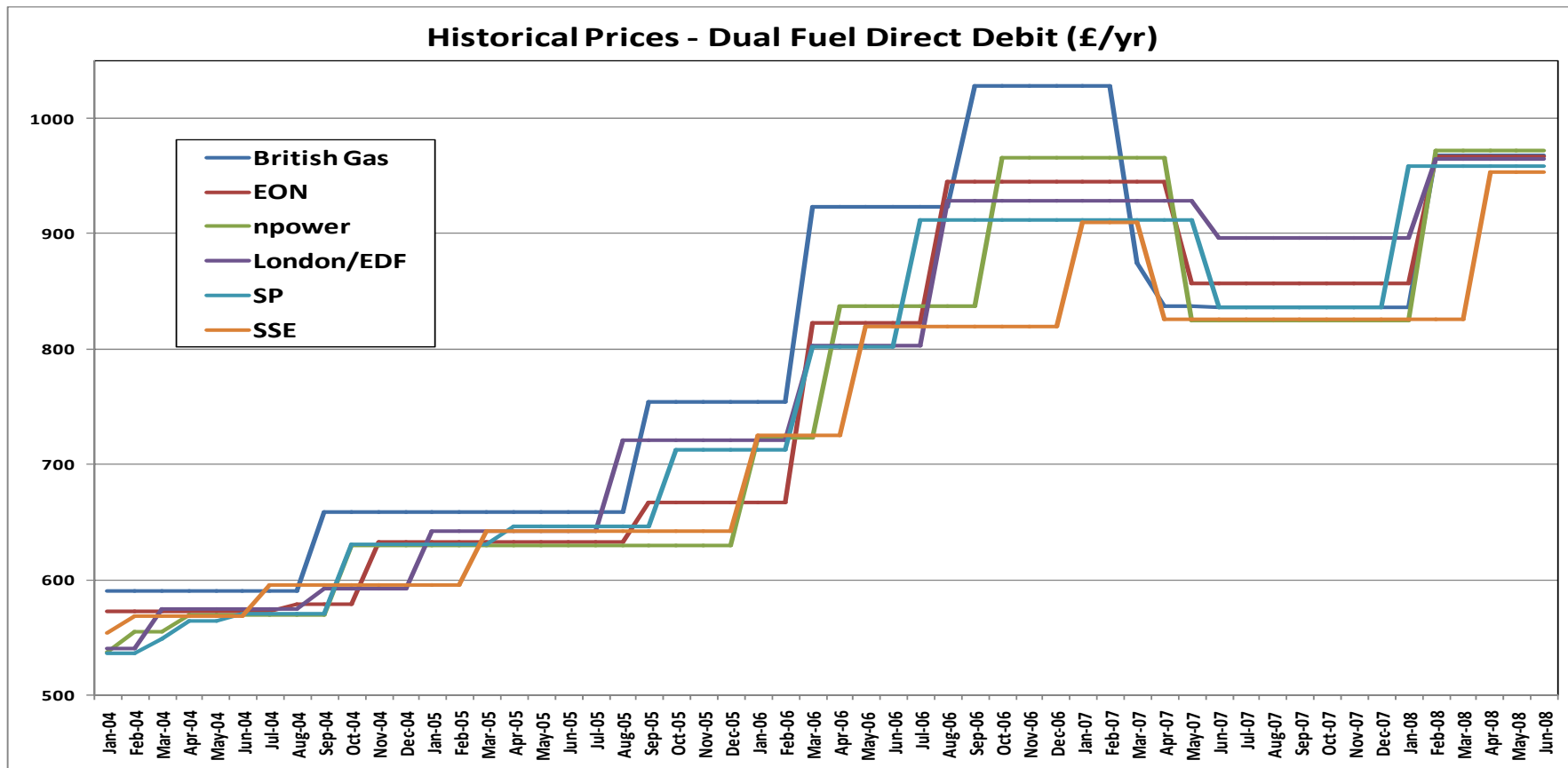
**Power prices diverging from Europe – key issue for competitiveness**



## Wholesale Markets – other issues

- Winter outlook – consultation
- May 27<sup>th</sup> events
- Cash out review
- SSE, Scottish Power – Competition Act case

# Retail markets



# Retail market probe



- Conducted under Enterprise Act powers
  - Whether or not a reference to the CC is justified
- Progress to date
  - Market research
  - Information requests
  - Cost/financial analysis underway
  - Root and branch analysis
- Next steps
  - Initial findings
  - September 2008 report

## Renewables 2020

- Government strategy for reaching 2020 targets expected end June
- Key issues
  - Support mechanism
  - Impact on systems security
  - Impact on prices
  - Impact on competition



## Other market issues

- European 3<sup>rd</sup> package
- Smart metering
- CA case, National Grid Metering
- Distributed energy and microgeneration
- Green tariffs



## Closing Comments

- Our people
- Our money
- Our product
- Our commitment
- Open and accessible

## City Liaison

For further information please contact the City Liaison team:

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The logo for Ofgem, consisting of the word "ofgem" in a white, lowercase, sans-serif font, centered within an orange rounded rectangle. The background of the slide features a collage of images: solar panels on the left, a hand holding a document on the right, and a blue scalloped object at the bottom left.

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Promoting choice and value  
for all gas and electricity customers